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Version: Version of Record

Link(s) to article on publisher's website:

<https://carnegieendowment.org/2021/05/24/how-china-and-pakistan-negotiate-pub-84592>

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INTERNATIONAL PEACE

MAY 2021

CHINA *local / global*

How Pakistan and China Negotiate

Katharine Adeney and Filippo Boni

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China Local/Global

China has become a global power, but there is too little debate about *how* this has happened and what it means. Many argue that China exports its developmental model and imposes it on other countries. But Chinese players also extend their influence by working through local actors and institutions while adapting and assimilating local and traditional forms, norms, and practices.

With a generous multiyear grant from the Ford Foundation, Carnegie has launched an innovative body of research on Chinese engagement strategies in seven regions of the world—Africa, Central Asia, Latin America, the Middle East and North Africa, the Pacific, South Asia, and Southeast Asia. Through a mix of research and strategic convening, this project explores these complex dynamics, including the ways Chinese firms are adapting to local labor laws in Latin America, Chinese banks and funds are exploring traditional Islamic financial and credit products in Southeast Asia and the Middle East, and Chinese actors are helping local workers upgrade their skills in Central Asia. These adaptive Chinese strategies that accommodate and work within local realities are mostly ignored by Western policymakers in particular.

Ultimately, the project aims to significantly broaden understanding and debate about China's role in the world and to generate innovative policy ideas. These could enable local players to better channel Chinese energies to support their societies and economies; provide lessons for Western engagement around the world, especially in developing countries; help China's own policy community learn from the diversity of Chinese experience; and potentially reduce frictions.

Evan A. Feigenbaum

Vice President for Studies, Carnegie Endowment for International Peace

Summary

Since being officially launched in April 2015, the China-Pakistan Economic Corridor (CPEC) has been one of the most watched set of projects under the aegis of Chinese President Xi Jinping's signature Belt and Road Initiative (BRI). Having already injected around \$25 billion into Pakistan, the CPEC not only has been dubbed the “flagship project” of the BRI, but it also holds a central role in Beijing's global ambitions.¹

While much has been said about the geopolitical implications of the CPEC, including for both India and the United States, less attention has been devoted to providing in-depth insights into the mechanics of how the BRI is unfolding on the ground in Pakistan. How do China and Pakistan negotiate the terms of CPEC deals? To what extent has Islamabad managed to exert agency in its dealings with Beijing? How does China adapt to the contexts it operates in? By now, the CPEC has been subject to much media, academic, and policy scrutiny, but these questions have not been answered.

The power asymmetry between the two partners—coupled with the impression that the BRI represents a unidirectional Chinese endeavor, not just in Pakistan but also globally—has contributed to the erroneous representation that Beijing is merely imposing the CPEC on its all-weather partners in Islamabad. On the contrary, this study highlights China's adaptive strategies in dealing with a host of Pakistani actors (including political parties, local communities, and the military) against the backdrop of Pakistan's evolving political landscape and change in leadership following the country's 2018 elections.

In filling this gap, this paper foregrounds the importance of adopting a relational approach to studying how the BRI unfolds on the ground. This entails looking at how Pakistan and China have negotiated the CPEC's energy, infrastructure, and industrial cooperation projects. The analysis is based on semi-structured elite interviews conducted by the two authors during three rounds of fieldwork in 2015, 2018, and 2020–2021 triangulated with a host of official reports, statements, and newspaper articles.

Examining the domestic contours of the CPEC shows that Pakistani actors have wielded agency in important ways throughout the process, while Chinese actors at times have accommodated key Pakistani demands.

- **The CPEC's chosen route was affected by partisan Pakistani politics.** The decisionmaking behind the corridor's geographic route was an early indication that Pakistan's preferences have been key in shaping how the CPEC has unfolded on the ground. In particular, the choice to prioritize projects in Sindh and Punjab stemmed from then prime minister Nawaz Sharif and his party's desire to obtain medium-term electoral gains, alongside China's interests in developing projects in Pakistan's more economically developed provinces.

- **Despite its initial suspicions of the CPEC, the Pakistan Tehreek-e-Insaf (PTI) has been as partisan in its use of the CPEC as its predecessor was.** Since taking office in 2018, the PTI's focus on socioeconomic projects has not deviated markedly from the Pakistani government's previously formulated plans for the CPEC. But its choice of the Rashakai special economic zone (SEZ) in Khyber Pakhtunkhwa, over others rated more favorably in feasibility studies (and despite a strong Chinese preference for an alternative location), undermines the narrative that China is always the one distorting market forces with ill-suited BRI projects.
- **The development of Gwadar was as much of a priority for Pakistan as it was for China.** Although China's strategic calculations are often emphasized, the port of Gwadar was a Pakistani-initiated proposal in the early 2000s that was only later rebranded as a BRI project after 2013. All Pakistani governments over the past twenty years, both military- and civilian-led, have encouraged China's involvement in Gwadar, while Beijing in turn sees the port as a strategic access point to the Indian Ocean.
- **Energy projects were initially prioritized by Pakistan's choice.** The majority of first-phase CPEC investments went to energy projects, most notably coal power plants. This preference for coal was part of Pakistan's desire to diversify the composition of its energy markets. This goal was also in line with Sharif's and his party's preference for energy projects to end the country's electricity shortages in order to secure a 2018 reelection bid.
- **The challenges facing SEZs.** Despite China's and Islamabad's agreement to focus on and prioritize a few SEZs and China's desire to relocate some industries to lower-cost production areas, the development of SEZs has been slow. This has been the result of a cumbersome bureaucratic structure and the politicization of these projects.
- **Rhetoric on the CPEC has often failed to match reality.** The lofty language on the CPEC has generally failed to measure up to the realities on the ground when it comes to delivering for the people of Pakistan. Many projects aimed at winning Pakistani hearts and minds have been included in the CPEC, but these have often not materialized or have been delayed.

Introduction

The China-Pakistan Economic Corridor (CPEC) is perhaps the most prominent of the investment corridors for China's infrastructure financing through its flagship Belt and Road Initiative (BRI).² With at least \$25 billion in total investment thus far, the CPEC encompasses the full spectrum of infrastructure projects, including roads, ports, power plants, and fiber optic cables.³

The scale and nature of Chinese investments in the CPEC—formally launched in Pakistan in 2015 by Chinese President Xi Jinping—have involved Chinese actors in Pakistan's domestic politics on an unprecedented scale. Chinese officials propound the principle of “non-interference” in other countries’ “internal affairs,” yet since 2013, Beijing and its proxies, including Chinese firms and funds, have stepped up their engagement with an array of Pakistani players at both the federal and local levels.⁴ And although these Chinese actors have pursued their interests and sought to make their political and investment preferences very clear, Pakistan's domestic political context has compelled them to adjust.

Since the CPEC began, China's preference for a centralized decisionmaking process for its various investments and projects has clashed with Pakistan's preferences—and with Pakistani political realities. As the then convener of Pakistan's Senate Special Committee on CPEC, Senator Sherry Rehman, has noted, “The divergence in processes between a centralized Chinese Communist Party government and Pakistan's nascent democratic parties and governance structures has been one of the major roadblocks in the implementation of the economic corridor.”⁵

Although many observers portray Chinese activities in Pakistan as Beijing-driven, one-size-fits-all endeavors, these projects and efforts actually have been shaped by complex interactions between the interests of Chinese players and those of Pakistani political and economic actors.⁶ This paper aims to explore these local effects by comparing Pakistan's approach to the CPEC before and after the 2018 elections, which brought Prime Minister Imran Khan to power. This comparison demonstrates how Chinese actors have adapted to Pakistan's changed political situation.

The paper first explores the alignment and sometimes misalignment of Chinese and Pakistani goals for the corridor and how Chinese players have had to adjust to Pakistani realities. The authors do this, in part, by analyzing discussions on how the kinds of key projects prioritized by the Joint Cooperation Committee (JCC), the chief decisionmaking body within the CPEC's institutional framework, changed course after the country's 2018 elections. The shift away from projects focused mostly on energy generation to a broader set of initiatives aimed at bolstering socioeconomic development, although it already had been heralded by China and Pakistan in the *Long-Term Plan for China-Pakistan Economic Corridor (2017–2030)*, was partly a function of the pressure brought to bear on Beijing by *domestic* Pakistani actors.⁷ The paper elaborates on these dynamics and Beijing's responses and adaptive strategies.

Next, the paper assesses the corridor's implementation of special economic zones (SEZs), one of the key components of the second phase of the CPEC. The SEZs operate under a Federal Board of Approval, which includes the Pakistani prime minister, relevant federal ministers (including the minister of finance), the chief ministers of Pakistan's provinces, and the governor of the State Bank of Pakistan.⁸ In exploring the dynamics between Chinese investors and local interests within these SEZs, the authors show how priorities have been mediated between the Pakistani and Chinese sides and resulted in *negotiated* outcomes, rather than simply terms imposed by Beijing.

The Economic Corridor Takes Shape

Before 2018, Pakistani politicians and officials were much less prepared for detailed negotiations on the CPEC than their Chinese interlocutors were. As Punjab's chief economist told the authors, the Chinese negotiators arrived with well-formulated plans, while their Pakistani counterparts had not sorted out their priorities.⁹ This view aligns with the analysis of Arif Rafiq, who has argued that the Pakistan Muslim League-Nawaz (PML-N) government led by then prime minister Nawaz Sharif was “woefully deficient in terms of planning and project prioritization.”¹⁰ It was the Chinese negotiators, Rafiq continued, “who seem to have played a lead role in conceiving the long-term CPEC plan” and the “masterplan” for the Gwadar Port and associated infrastructure projects in the Pakistani province of Balochistan.¹¹

Despite this shaky start, however, Pakistani politicians soon identified areas where they could leverage proposed Chinese investments to their advantage and in ways that reflected their own priorities.

The Routes of the Economic Corridor

Beijing and Islamabad needed to reach an agreement on the corridor's routes and the billions of dollars in investment that were at stake. Making the CPEC a genuinely national and equitable initiative would have meant siting projects in all four of the country's provinces. However, although the Pakistani government initially hewed to the rhetoric of an “all-Pakistan” effort, this stance did not last long.¹²

Major Pakistani stakeholders, including federal and provincial politicians and business actors, pushed to secure projects for their home regions. Not surprisingly, controversy ensued. Pakistan's opposition and regional parties sometimes opposed the early CPEC siting decisions, but to no avail. The PML-N saw the CPEC as its ticket to reelection.¹³ The ruling party prioritized spending and investment for its Punjab heartland, which happens to hold the most seats in the National Assembly.¹⁴ The CPEC's eastern route came to run through the provinces of Punjab and Sindh, including many of the political constituencies of PML-N members of parliament (see photo 1). This arrangement left



PHOTO 1

Chinese and Pakistani policymakers opted for an eastern route for the CPEC that ran through major population centers (like the city of Lahore) in Pakistan's more populous provinces of Punjab and Sindh. (Katharine Adeney)

the provinces Balochistan and Khyber Pakhtunkhwa out in the cold, even though Balochistan was then ruled by a coalition that included the PML-N.

In this case, the Pakistani government's preference happened to mesh well with the technical concerns of its Chinese interlocutors. As one interviewee has argued, "The Chinese expressed their desire to work on existing road networks without building new ones from scratch."¹⁵ And Punjab, in particular, had attractive development potential.

As the CPEC's top decisionmaking body, the JCC was a prominent venue for these negotiations. The committee is co-chaired by the Pakistani minister of planning, development, and special initiatives and the vice chairman of China's National Development and Reform Commission. Several joint working groups (on Gwadar, energy, and transport infrastructure, for example) convene in between the JCC meetings and make recommendations to the full committee.¹⁶

The official minutes of JCC meetings corroborate this alignment of Pakistani political interests with Chinese commercial and technical concerns. For instance, in February 2014, based on the recommendations of the joint working group on transport infrastructure, the JCC "reached consensus on the alignment of [the] CPEC, and Kashgar of Xinjiang, Khunjerab, Islamabad, Lahore, Multan, Sukkur, Karachi and Gwadar are confirmed as pivot cities initially."¹⁷ In other words, Chinese and Pakistani decisionmakers zeroed in on cities located in Punjab and Sindh with the single exception of the flagship Gwadar Port (see photo 2).

The notes from that same JCC meeting also mentioned that the attendees decided on the "principles of connecting main economic areas [to] pivot cities; making full use of existing transport infrastructure for the development of [the] CPEC where feasible; and initially focusing on the upgrading and



PHOTO 2

Chinese investment in the CPEC has bankrolled major infrastructure projects in several Pakistani urban centers, including the country's first metro line in the city of Lahore, which opened in October 2020. (ARIF ALI/AFP via Getty Images)

rebuilding of existing lines for railway construction.”¹⁸ Ultimately, then, the choice of route reflected the combination of Chinese priorities and the Pakistani government’s domestic agenda.

Energy Projects

The CPEC’s strong early focus on energy generation sprung primarily from Pakistan’s own domestic political priorities. Energy came to be the very heart of the CPEC’s initial phase largely because of a dramatic energy crisis that was affecting the lives and livelihoods of Pakistanis, the country’s macro-economy, and (as a result) the electoral prospects of those in power. The promise to solve the “energy crisis” was a key electoral manifesto commitment of the PML-N’s 2013 campaign.¹⁹ As Punjab’s chief economist explained, “energy was the pre-requisite” to everything the PML-N hoped to achieve both developmentally and electorally.²⁰

The fact that Pakistan pushed its energy priorities onto Beijing rather than the other way around is demonstrated by the minutes of the first JCC meeting in August 2013. The Pakistani side “shared [that] the energy sector is the most important and critical sector and without its revival, economic activities cannot be re-generated in the country.”²¹ In the same meeting the vice chairman of China’s National Development and Reform Commission agreed to take cues from Pakistan by “affirm[ing] that the projects . . . identified by the [Pakistani] Minister [would] . . . be the basis for future bilateral cooperation under the corridor.”²² However, Chinese officials warned that both sides would need to ensure the high efficiency of projects to maximize their benefits when making specific investment decisions within that Pakistan-set prioritization framework.²³

Within the energy sector, coal would play a key role (see table 1).²⁴ The Pakistani authorities clearly dictated this priority, and their Chinese counterparts adapted accordingly. For instance, the National

TABLE 1

CPEC Coal Power Projects

Project Name	Location	Estimated Cost (U.S. dollars)	Executing Company/Sponsors	Completion Status
Sahiwal coal-fired power plants	Sahiwal, Punjab	\$1.9 billion	Huaneng Shandong Rui Group (China)	Completed in October 2017
Coal-fired power plants at Port Qasim (near Karachi)	Port Qasim, Sindh	\$1.9 billion	Port Qasim Electric Power Company (Private) Limited	First unit: November 2017; second unit: April 2018
HUBCO coal power project	Hub, Balochistan	\$1.9 billion	China Power Hub Generation Company (Private) Limited	August 2019 (Inaugurated by the prime minister in October 2019)
Engro Thar coal power project	Thar-Block-II, Sindh	\$995.4 million	Engro Power Gen Thar Ltd.; China Machinery Engineering Corporation	July 2019
SSRL Thar coal Block-I (6.8 million tons per annum) power plant	Thar-Block-I, Sindh	\$1.9 billion	Shanghai Electric Power Company Limited; China Coal Technology and Engineering Group Corporation; and Sino Sindh Resources Private Limited	In progress (target date is February 2023)
HUBCO Thar coal power project (Thar Energy)	Thar Block- II, Sindh	\$497.7 million	Thar Energy Limited	In progress (target date was March 2021)
ThalNova Thar coal power project	Thar Block- II, Sindh	\$497.7 million	ThalNova Power Thar (Private) Limited	In progress (target date was March 2021)
Imported coal- based power project at Gwadar	Gwadar, Balochistan	\$542.3 million	China Communications Construction Company	In progress (no target date specified)

SOURCES: the CPEC (official website) and various news sources

Power Policy 2013, one of the very first policy documents approved by the newly elected PML-N government in July 2013, called for the exploration of a “coal corridor.”²⁵

This plan was made to generate cheaper electricity and to diversify the country’s energy sources with the goal of reducing its overreliance on oil. Accordingly, 47 percent (eight out of seventeen) of the prioritized energy projects under the CPEC between 2013 and 2021 were for coal-fired power plants. These projects accounted for 65 percent of the projected megawatts of power that CPEC sites would produce, a potent reminder of the centrality that the Pakistani government attached to the role of coal.²⁶

Pakistani leaders were not only steering the types of projects that received investment but were also asking Chinese firms to speed up the construction of various projects. The Pakistani government put pressure on the Power Construction Corporation of China (PowerChina), the state-owned enterprise (SOE) that holds a 51 percent stake in the project, to rapidly develop the Port Qasim coal-fired plant so it would be ready ahead of the 2018 elections.²⁷ The power plant was eventually connected to the country’s electrical grid in just thirty-two months, and the Port Qasim coal power plant began commercial operations sixty-seven days ahead of schedule and ahead of the July 2018 elections.²⁸ In brief, the power generation projects that dominated the first phase of the CPEC were the result of Chinese accommodations of Pakistani political and economic priorities.

The Port of Gwadar

The project that best captures the combination of local agency and Chinese adaptation is the port of Gwadar in Balochistan, the jewel in the CPEC’s crown. To many Indian and U.S. policymakers, Gwadar epitomizes China’s military ambitions and expansionism. However, the development of the Gwadar Port is better understood as a Pakistani, not a Chinese, story. The project was first initiated by Pakistani elites who have long sought to build infrastructure that could help the country counter-balance its archrival, India—a cause to which China has been receptive over many years. Like other projects along the BRI’s routes, Gwadar, too, started much earlier than the advent of Xi’s signature initiative.

The first proposal to develop Gwadar as a port was put forward not by Beijing but by then Pakistani president General Pervez Musharraf during his first visit to China in January 2000. In fact, Beijing was skeptical of Musharraf’s proposal, since Gwadar was located in a remote area and was disconnected from the major transport routes that have been China’s focus. The general’s Chinese interlocutors also looked askance at the project due to its modest commercial prospects and its location in a region—Balochistan—with strong and long-standing separatist sentiments.²⁹

China eventually came around, in part because the project was such a high priority for its Pakistani partners. By the time of his May 2001 visit to Pakistan, then Chinese premier Zhu Rongji announced that Beijing had decided to invest in the port, with the completion of the project's first phase slated for 2006.³⁰ Following the inauguration of the port in January 2007, however, six years of inaction followed during which operations were handed over to the Port of Singapore Authority, which failed to deliver on further development at the port site. As one interviewee noted, the Pakistani government “gave it to [the] wrong organization, the Singapore Port Authority. They were not able to deliver, they were not able to run it, [and] they were not able to keep their commitment.”³¹

After Pakistan's return to democracy, the February 2008 elections culminated in the victory of the Pakistan People's Party (PPP), and the new government was determined to develop economic ties with China and to see the project through. As such, Pakistan once again offered Gwadar to China when then prime minister Yousaf Reza Gilani visited Beijing in the immediate wake of the May 2011 U.S. raid that killed al-Qaeda leader Osama bin Laden in the Pakistani city of Abbottabad.³² Islamabad's initial offer allegedly included developing a military base at Gwadar, or as then defense minister Chaudhary Ahmed Mukhtar announced, “We have asked our Chinese brothers to please build a naval base at Gwadar.”³³ China, however, denied these claims. As the *New York Times* put it, Mukhtar's statement was seen by some “as a pointed, if graceless, effort to send a message to the United States that Pakistan had other options should its foundering relationship with Washington prove beyond repair” after bin Laden was killed on Pakistani soil.³⁴ Since then, both China and Pakistan have downplayed the military development of Gwadar.

In February 2013, the China Overseas Port Holding Company officially took over the management of the port. Even though this happened during the tenure of the PPP government, the importance of Gwadar to every Pakistani government, regardless of political persuasion, has remained a constant for more than twenty years.³⁵ The relevance of the port for Pakistan relates to several factors, including the country's rivalry with India and the potential to use Gwadar for trade through Afghanistan and Central Asia. The port has been and is a regular topic of discussion at the JCC meetings, with Beijing acceding to various Pakistani construction requests.

Thus, during the first JCC meeting in 2013, the chairman of Pakistan's National Highway Authority—the agency tasked with the implementation of road projects under the CPEC—suggested that upgrading “the Makran Coastal Highway to link Karachi with Gwadar” should be a key priority.³⁶ In his own concluding remarks at the same meeting, the vice chairman of China's National Development and Reform Commission argued for “giving priority” to projects that would support a plan for “Gwadar port's sustainable development.”³⁷ (Beijing has placed a recurring emphasis on sustainable development, a point to which this paper will return.) As evidence of the importance Chinese actors placed on *Pakistan's* requests, the two sides agreed at the third JCC meeting on August 27, 2014, to

sign a government-to-government framework agreement, which included the Eastbay Expressway linking Gwadar to Karachi through the Makran Coast.³⁸

To be sure, some of the prioritized projects, including the Eastbay Expressway, aimed to address Beijing's original concerns about the lack of connectivity around the port and its geographic isolation from Pakistan's transport networks. To put it differently, Beijing has not simply accepted Pakistani requests that lacked any underlying commercial or logistical logic. In addition, the Eastbay Expressway was financed by an *interest-free* Chinese government loan.³⁹ This arrangement was in sharp contrast to the concessional loans and independent power producer plans that financed other early harvest CPEC projects.⁴⁰ This reflected China's desire to both meet Pakistani demands and pursue its own strategic considerations to develop what Chinese analysts consider a "strategic strongpoint" in the Indian Ocean.⁴¹

In summary, the first phase of the CPEC (2013–2017) is a potent example of negotiated outcomes between Pakistan's evolving preferences and China's own adaptive goals and priorities. The way the CPEC route was the result of the PML-N's and China's goals, the prioritization of coal projects in line with Pakistan's requests, and developments at the port of Gwadar (especially about building road links with Pakistan's highway network) all demonstrate this point.

The Impact of the 2018 Pakistani Elections

For decades, China's relations with Pakistan were primarily channeled through the Pakistani military, and the security relationship was the backbone of China-Pakistan relations writ large.⁴² These security-centric ties persisted even when Pakistani governments sought to inject a greater emphasis on development and economic goals into the bilateral relationship. Most notably, the PPP government that ruled from 2008 to 2013 was keen to develop closer economic ties with China, although Beijing was initially more reluctant to work with the PPP leadership as it was perceived to be close to the United States.⁴³

The advent of the CPEC altered these dynamics. In Sharif's PML-N government, which took office in June 2013, the Chinese leadership found a *civilian* partner willing to push ahead with large-scale infrastructure priorities of the type that China had begun to finance in South Asia and around the world. By concentrating project decisionmaking in the JCC, a civilian-led body, China began to build significant relationships in Pakistan beyond the military.

For both sides, this post-2013, civilian-focused arrangement proved to be congenial. For China, the JCC structure suited its desire to move decisions rapidly through Pakistan's fractious political system and implement CPEC projects expeditiously. For the PML-N's part, meanwhile, the JCC nicely

suited the party leadership's ambition to maintain *civilian* control of strategic commercial and development projects.

However, this equilibrium soon bumped up against the complex realities of Pakistani politics—above all, the continuing constraint of indirect military interventions in domestic politics. The military's shadow loomed large over a July 2017 Supreme Court decision to disqualify Sharif from holding office over corruption charges.⁴⁴ China's foreign ministry put a brave face on this turn of events, stating that his disqualification from political office would not affect the CPEC.⁴⁵ Yet credible reports suggested that, behind the scenes, Beijing was unhappy with the decision to remove the prime minister from office, worrying that it would “bring some variable factors to the CPEC project.”⁴⁶

A first signal of such turbulence came at the seventh JCC meeting, held in Islamabad in November 2017, the body's first meeting at which no major infrastructure projects were agreed on. That discontinuity between the prior period, when the JCC approved major deals, and the stasis and indecision that began with Sharif's removal would become even more marked under the successor Pakistani national government of the Tehreek-e-Insaf (PTI) party under Khan.

The year 2018 was a transitional moment for the CPEC and for Chinese engagement with Pakistan generally. The PTI came to power after the July 2018 elections. Led by Khan, a former cricket hero, the party campaigned extensively on a so-called “New Pakistan” platform anchored in a strong anticorruption agenda. Between 2013 and 2018, Khan and other prominent PTI leaders had expressed reservations about the CPEC. In particular they had criticized their predecessors' decision to route the CPEC through Punjab (rather than an alternative western route) and had alleged that PML-N politicians had personally benefited from the Chinese investments.⁴⁷

In Khan's election victory speech, he praised China's domestic poverty alleviation strategy, extolled Xi's anticorruption drive, and argued that “China gives us a huge opportunity through [the] CPEC,” but he made no reference to specific China-backed infrastructure projects in Pakistan itself.⁴⁸ This omission raised questions about the future of infrastructure projects that had been the focus of the first phase of the CPEC from 2013 to 2017. Khan leavened this message by hinting that the new PTI leadership *was* prepared to accommodate a new set of priorities within the CPEC. He suggested that projects that were currently underway should be completed but that the PTI's agenda, not the PML-N's, would dominate the discussion of future phases of the initiative.⁴⁹

The PTI government conveyed this message to Beijing over several meetings with then Chinese ambassador Yao Jing in the immediate wake of the elections. In his very first encounter with Khan, Yao shifted tack by paying rhetorical service to the proposition that the PTI “pursues the notion of governing for the well-being of its people and hopes that China will keep supporting Pakistan's economic and social development.”⁵⁰ In that context, Yao expressed China's openness to “work

together with the new government” and delivered the same message in meetings with newly minted PTI ministers, including the minister for railways and the prime minister’s adviser for commerce and investment, Abdul Razak Dawood.⁵¹ As Andrew Small argues, the Chinese “spent the first period after the elections trying to be accommodating in order to ensure that [the] CPEC stayed on track.”⁵²

This Chinese nod to the PTI’s developmental priorities did not keep Beijing from becoming a football for dueling Pakistani politicians to trade politically motivated charges and countercharges. Only a few days after meeting Yao, and while Yao’s boss, Chinese Foreign Minister Wang Yi, was visiting Pakistan, Dawood was quoted by the *Financial Times* saying that the PML-N “did a bad job negotiating with China on [the] CPEC” and conceding that ill-advised tax breaks to Chinese companies allowed them to gain “an undue advantage in Pakistan.”⁵³ Dawood concluded that Pakistan “should put everything on hold for a year so we can get our act together.”⁵⁴

Political twists and turns ensued, as the Pakistani military, with an eye on Beijing, pressured Khan to publicly retract Dawood’s comments the next day, and the new minister for planning reiterated a prioritized commitment to the “robust development of Gwadar . . . with a special focus on rapid industrialization.”⁵⁵ Still, the mere fact that Beijing had to rely on the Pakistan Army to put some heat on the new government was symbolic of the change in domestic interlocutors, after years of building relationships with civilian partners and leaders.

Within days, Beijing was forced back into using its pre-2013 playbook, as Yao publicly enlisted the help of Pakistan’s Chief of Army Staff General Qamar Javed Bajwa, who also reaffirmed the military’s commitment to the CPEC during a long-planned visit to China, including a meeting with Xi, just one week later.⁵⁶ When asked about the changed priorities of the PTI government toward the CPEC, a senior bureaucrat in Islamabad argued that the new government simply did not understand policy-making and revealed that the “army chief [had to brief] the cabinet about the real economic issues of Pakistan” to get the process back on track.⁵⁷

At the same time, the new government announced changes to Pakistan’s Public Sector Development Program (PSDP), the principal source of development funding deployed annually by the Pakistani government.⁵⁸ These changes to the PSDP demonstrate clear differences in priorities between the PML-N and PTI governments, although these changes were also made with the knowledge that Pakistan would be shortly seeking a bailout from the International Monetary Fund. Chinese officials would have to adjust to their Pakistani counterparts’ revised narrative on socioeconomic development.⁵⁹ The PTI removed 35 percent of the country’s capital and development projects (a total of 455) from its new development plan, including sixteen China-backed projects under the CPEC (twelve projects in Gwadar and four broader CPEC proposals beyond the port).⁶⁰ These changes reduced the overall PSDP allocations to the CPEC by roughly 20 billion Pakistani rupees (approximately \$125 million) in the 2018–2019 PSDP.⁶¹

In such a fluid situation, it is not surprisingly that the December 2018 and November 2019 JCC meetings, therefore, yielded no major new capital projects. Instead, these meetings focused mostly on completing the projects *already* underway and shifted the emphasis to the PTI's priorities by turning toward prospective new investments in SEZs. In February 2020, Yao nodded to this shift by noting that “the new real aspects of [the] CPEC basically demonstrate Mr. Imran Khan's vision of the economy,” adding that “more focus is [now being] given to industrial cooperation” and acknowledging the need to “engage more [with] the private sector.”⁶²

In short, although Beijing's initial response to the change of government was to engage again with the Pakistan Army, China ultimately settled on a more adaptive, accommodative, and PTI-friendly strategy. This Chinese adaptation would partly address socioeconomic development while simultaneously moving forward on industrial cooperation, most notably through the creation of SEZs.

The Rise of SEZs

One notable element of the CPEC since 2018 has been a renewed emphasis on SEZs. These entities have been introduced in many countries, despite skepticism from the World Bank and others about whether they improve economic development more than the national average.⁶³ It is important to note that the creation of SEZs was already mentioned even before the 2018 election in the *Long-Term Plan for China-Pakistan Economic Corridor (2017-2030)*, which was agreed on under the previous PML-N government, as a major second-phase priority for the CPEC.⁶⁴ Even before the PTI took power, therefore, Pakistan viewed the zones as a means of enabling “industries to smooth supply chains, enhance collaboration and innovation capabilities, and help reap significant economies of scale.”⁶⁵

From Beijing's perspective, meanwhile, access to Pakistan through SEZs would have the secondary benefit of allowing Chinese investors to re-export “because [of] “Pakistan's GSP+ access to the EU.”⁶⁶ In addition, investing in SEZs would enable China to take advantage of Pakistan's cheaper labor costs and relocate some of its “sunset industries” to Pakistan, as its own industries back in China moved up the value chain (although it is important to stress that Pakistan was not the only possible relocation candidate for these Chinese firms).⁶⁷

At the 2016 JCC meeting, Pakistan (under the PML-N government) and China agreed to nine new SEZs.⁶⁸ In keeping with the rhetorical commitment to a whole-of-Pakistan CPEC narrative, these SEZs initially were spread across the country more widely than those first adopted in 2012.⁶⁹ The federal government proposed “industrial parks in all four provinces,” with just one of the SEZs located in Sharif's home province of Punjab along with two in Sindh, one in Balochistan, and one in Khyber Pakhtunkhwa; they also proposed that SEZs also be located in the administrative territories of the Islamabad Capital Territory (one), Gilgit Baltistan (one), Azad Jammu and Kashmir (one), and

the (former) Federally Administered Tribal Areas (one).⁷⁰ The minutes of the December 2016 JCC meeting recorded the “priority list of locations of special economic zones shared by the Pakistani side.”⁷¹ Although the minutes noted that “experts on industrial zones from China shall visit Pakistan in early 2017 to advise the Pakistani side on the most suitable locations,” it was Pakistan, not China, that pushed for these particular locations.⁷²

However, at the seventh JCC meeting in November 2017, differences emerged as to which SEZ sites should be prioritized. Beijing wanted the Thatta (Dhabeji) site (in Sindh), the Hattar site (in Khyber Pakhtunkhwa), and the M3 Faisalabad site (in Punjab) to be prioritized, while Pakistan strongly advocated moving ahead on the Rashakai site (in Khyber Pakhtunkhwa) and the Sheikhpura zone (in Punjab)—the latter for parochial political reasons related to the PML-N’s Punjab heartland.⁷³

Meanwhile, China’s preferences reflected an interest in quick wins. As Hasaan Khawar, a journalist at the *Express Tribune* has noted, despite a common misperception, “the Chinese never requested . . . [that] Pakistan [offer] exclusive industrial enclaves under [the] CPEC. Their preference for [the] M3 and Hattar industrial estates, with a number of pre-existing industries, makes this evident.”⁷⁴ No decision was reached on the location of the SEZs at this meeting.

Jobs, Centralization, and the Limits of China’s Power During Khan’s Tenure

When Khan eventually warmed to the CPEC (under pressure from the Pakistani military), he sought to refocus it around SEZs and projects that meshed with his populist agenda of increasing local employment and building up local businesses. Although SEZs had always been envisaged as a second-phase priority under the PML-N government, Khan’s PTI came to view them as a means to deliver on his populist promise of “creating 10 million jobs and strengthen[ing] the Labour market.”⁷⁵ As Khan put it in 2020, his “government’s interest is definitely to provide job opportunities to the locals at their doorsteps.”⁷⁶ This goal also embodied an ambition to “transform” the areas around the SEZs, benefiting local residents.⁷⁷

At the eighth JCC meeting in December 2018, the first meeting after the PTI came to power, Chinese officials finally accepted that Rashakai would be one of the three SEZs prioritized as “key projects.”⁷⁸ Chinese actors accepted this outcome even though the feasibility studies provided to the sixth JCC meeting had ranked Rashakai lower than Dhabeji (in Sindh), Hattar (in Khyber Pakhtunkhwa), or Faisalabad (in Punjab), and even though the existing economic zone at Rashakai had been described as a failure by analysts.⁷⁹ As Small has argued, at the eighth JCC meeting, the Chinese participants were concerned that “there was a respectable public narrative around [the] CPEC in place for the second Belt and Road Forum.”⁸⁰

Nonetheless, Khan was determined to focus Chinese attention on this zone, located 70 kilometers from Peshawar, for partisan political reasons.⁸¹ The provincial government in power in Khyber Pakhtunkhwa, led by Khan's party (Tehreek-e-Insaf), was a strong advocate for the SEZ's adoption as it was located in the constituency of the chief minister.

Although Pakistan accepted China's preferred sites of Dhabedi and Faisalabad at this meeting, the shift from Sheikhpura to Faisalabad was occasioned by *Pakistani* political changes. After the change in political power in Punjab from the PML-N to the PTI, feasibility studies on an SEZ at Sheikhpura revealed "some serious issues."⁸² The new government realized that "more than 200,000 resided in the area and the land was privately owned" so it could not simply be allocated to the SEZ.⁸³ As such, this siting modification was the result of the shift in power in Punjab's provincial government from the PML-N to the PTI, not shifting Chinese preferences. See table 2 for a full listing of the key prioritized SEZs.

TABLE 2
The CPEC's Prioritized Special Economic Zones

Province/Area	Location	Progress
Punjab	M3 Industrial City (Faisalabad)	Groundbreaking took place in January 2020
Khyber Pakhtunkhwa	Rashakai Economic Zone on M1	Development agreement signed in September 2020
Sindh	Dhabeji Special Economic Zone	Looking for a new developer; road and gas connections are being finalized
Balochistan	Bostan Industrial Zone	Officially named a CPEC SEZ in March 2020
Gilgit Baltistan	Moqpondass SEZ (Gilgit)	Post-feasibility study stage; provincial government is managing authority of the SEZ
Federal Government	ICT Model Industrial Zone (Islamabad)	Land finalization stage
Federal Government	Development of industrial park on Pakistan steel mill land in Port Qasim near Karachi	Feasibility study assessment stage
Azad Jammu and Kashmir	Mirpur Industrial Zone	Feasibility study underway
Federally Administered Tribal Areas (now merged into Khyber Pakhtunkhwa)	Mohmand Marble City	Feasibility study underway

SOURCE: A variety of official Pakistani government documents and related news articles.

Of the nine SEZs on the CPEC's priority list in 2016, three were accepted as elevated priorities at the 2018 JCC meeting: Rashakai in Khyber Pakhtunkhwa, Dhabeji in Sindh, and Faisalabad in Punjab. All three were the preferred options of the Khan government. China's preference for the Hattar industrial park as the more viable and efficient option was eventually abandoned, and the Rashakai project, adopted for political rather than economic reasons, was accepted instead.⁸⁴ This is a clear example of how an economically inefficient project was driven by Pakistani domestic political concerns, a development that runs counter to the common narrative that China is typically the one distorting market forces.

The discourse on the development of the SEZs has been related to economic cooperation, skills training, and employment. However, it is extremely difficult to independently verify the claims made about employment levels in and nearby the SEZs. For instance, in January 2020, the Faisalabad Industrial Development and Management Company (a company established by the provincial government that develops and upgrades industrial estates) claimed that the Faisalabad SEZ "will absorb more than 400,000 skilled workers in four years" and provide training centers for workers within the SEZ.⁸⁵ The government-funded CPEC Centre for Excellence estimated in 2018 that 1.2 million jobs would be created by 2030.⁸⁶ A similar narrative was echoed in December 2020 by Chinese Consul General Li Bijian, who argued that "investment would bring development and jobs for [the] local population and also . . . will improve civic facilities. With industries, locals will increase their incomes and would have better services."⁸⁷

Many experts question these projections, however. As Zahra Beg, representing a widespread view among analysts, put it, "Locals, if hired, are in lower positions, often suffering major salary discrepancies."⁸⁸ Interviewed at the end of 2020, the journalist Khawar said that the situation has remained much the same: "[The] Chinese say they can't find high-tech or specialized labor in Pakistan. So wherever they can't find local labor, they bring in Chinese [workers]."⁸⁹ He was optimistic, however, that with time this would change. A senior political appointee in Lahore agreed that if a project needs to be completed quickly, Chinese labor tends to be used, but in the long term he believed that there would be a shift to Pakistani labor.⁹⁰ However, no reasons were given to support this assertion.

For its part, China has gone some way to try to address these long-standing concerns surrounding job opportunities within the CPEC. The manager of the Shaanxi Huashan Construction Group Company, tasked with the construction of two additional lanes to the N-55 highway, said that his company "adhere[s] to the localized operation mode. [The company] strives to train local technical workers and management talents."⁹¹ China has shown itself aware of the sensitivities surrounding (the lack of) local employment opportunities, but it is much less clear whether this awareness is translating into more than public statements.

One of the most important features of the handling of the CPEC under Khan has been more centralized political control. This was the result of China's increasing concerns about the slow progress of many CPEC projects, coupled with long-standing requests from Pakistan's powerful military to increase its role in the handling of the CPEC. Although the PML-N government also sought to centralize its control of the CPEC, it insisted on a civilian-led centralization of authority and rejected the Pakistani military's demand "for a CPEC Authority with greater military involvement."⁹²

In terms of the management of the SEZs, although the Board of Investment is "responsible for the co-ordination of all activities pertaining to SEZs, developers and zone enterprises" and was designed to "facilitate the interaction of developers and zone enterprises" with all other government entities, Pakistan's provinces still retain significant powers.⁹³ This includes the need for a Chinese investor to win approval from the provincial building control authority, which retains the responsibility for developing the zones.

The lack of a "one window operation" for facilitating SEZs within the CPEC has been extensively criticized. As an industrialist reported to a trio of researchers, "there should be one place where people can go and submit documents—what happens behind that window is [the] government's issue and they should speed up the work, link the departments and get the work done; otherwise the current system is not built to create ease."⁹⁴

As a response to domestic and Chinese criticisms about the lack of progress, in the wake of the eighth JCC meeting in December 2018, the Pakistani federal government is now spearheading the project, at least in public. This means, in part, that the federal government is now providing utilities to the SEZs, which is a joint federal and provincial responsibility in Pakistan.⁹⁵ There has been talk of amending the SEZ Act again, as the prime minister's special adviser on commerce has argued that changes need to be made to address the "slow pace of development and lack of utilities in the SEZs, [the] complicated approval process, cumbersome procedures for availing the incentives, lack of clear policy objectives, absence of one window operations and others."⁹⁶

There are real capacity issues but because of the status of the CPEC as the "flagship" of the BRI, China has had to confine its concerns to bilateral meetings. Even with its financial muscle, China has not been able to accelerate progress, although the January 2021 proposal to create a Pakistan-China joint parliamentary committee to oversee individual CPEC projects heralds a probable change in approach.⁹⁷

China is concerned that progress has been extremely slow in developing the three prioritized SEZs. A groundbreaking ceremony only took place in Faisalabad in January 2020, and the "development agreement" for Rashakai was signed only in September 2020.⁹⁸ Dhabeji was only approved "in principle" in October 2020.⁹⁹

Even before the challenges posed by the coronavirus pandemic, CPEC Project Director Hassan Daud Butt's statement in November 2019 that "we expect to finish development work in one year [on the SEZs] to enable Chinese investors [to] start relocating their manufacturing units here" was wildly optimistic.¹⁰⁰ A more realistic assessment was given by the chair of the Parliamentary CPEC Committee, an oversight body comprised of members of both houses of the Pakistani parliament who said, "we make sure they are inaugurated when they are ready," by which he meant when they had investors.¹⁰¹ This reality was confirmed by a provincial bureaucrat who noted that, unless there was interest from investors, nothing happens: "If advances flow in then everything speeds up."¹⁰²

China has therefore had to adapt to dynamics on the ground in Pakistan. A repeated concern has been that there is no "suitable business environment" for Chinese companies and that there is a "trust deficit."¹⁰³ A Punjab government official reported that Chinese companies "come here looking for plug-and-play facilities. When we cannot offer them this facility, they move on to other countries."¹⁰⁴ As Li Bijian, the Chinese consul general in Karachi, opined in February 2020, "We can't order private investment. Yes, we are encouraging companies. We know well that it will not be persuasion but the profit expectation and risk coverage that will mobilise them. We are engaging with the relevant quarters in Pakistan to work out an incentives package for Chinese investors in special economic zones (SEZs)."¹⁰⁵ This statement aligns with an interview with a Western diplomat in 2020 who questioned why Chinese companies would invest in the SEZs, given that "all companies, not just the Chinese, are [being] offered preferential rates."¹⁰⁶

China has not been able to secure a "suitable business environment" for its sunset industries and, despite pressure, Beijing has not yet been successful in encouraging Pakistan to change the legal framework in the SEZs to facilitate its investment.¹⁰⁷ Although there are reports of progress in the Rashakai SEZ, with the construction of a steel unit, the provision of facilities and infrastructure for the SEZ have not progressed as quickly as Chinese officials had expected.¹⁰⁸

China still believes that regulatory changes are needed to encourage Chinese investment in the SEZs. One journal article in an elite Chinese university argued that as well as "cutting [down] delays [and] bureaucratic hurdles . . . the Pakistani government ought to accord complete and secured property rights protection to . . . attract Chinese firms . . . [and that it should] negotiate with [the] Chinese government to secure duty-free status to exports originating from the SEZ."¹⁰⁹ It is likely that, unless Chinese concerns are addressed, investment into the SEZs by Chinese firms will be slow, although any such investments presumably will be heralded as evidence of the success of the SEZs.

Gwadar

In contrast to the slow progress on SEZs, a different model has been underway in Gwadar (see photo 3).¹¹⁰ After the China Overseas Ports Holding Company took over the management of the port, the



PHOTO 3

China has invested billions to meet long-standing Pakistani requests to help turn the port of Gwadar into a regional hub for trade. (AAMIR QURESHI/AFP via Getty Images)

company “leased over 650 acres of land . . . to build and operate” a Free Trade Zone.”¹¹¹ Unlike the SEZs, the free trade zone operates as “a free port . . . similar to [how] Hong Kong [operates].” China receives 91 percent of the profits from the port, which it will run for forty years under a “build-operate and transfer model [sic].”¹¹²

Projects in Gwadar featured prominently in the JCC meetings, particularly at the fourth JCC meeting in March 2015. What is striking about the minutes from that meeting is the stress placed on the “Social Sector Development of Gwadar Region” with statements such as the “JCC also appreciated the progress on social sector projects.”¹¹³ Both sides were keen to ensure the success of the project, and the inclusion of so many prominent social sector projects was important for the public image of the CPEC in Balochistan, a marginalized province with multiple insurgent groups. As Small notes, Chinese workers had been attacked in Gwadar before, notably in 2004 and 2007.¹¹⁴

In October 2019, shortly before Khan visited China, generous tax exemptions were granted to investors in Gwadar including for income tax, sales tax, and federal exercise duties.¹¹⁵ Although the Pakistani government’s concession of these exemptions met long-standing Chinese demands, they also reflected the strategic importance of the port for the Pakistan Navy.¹¹⁶ It is no accident that the decision to grant these exemptions was made by the National Development Council, which is chaired by the prime minister but crucially includes the chief of army staff, reflecting the changed balance of power in Pakistan.¹¹⁷

The granting of these exemptions stood in stark contrast to the lack of concessions over the payment of income tax for investors in the SEZs, one of China’s concerns, as discussed above.¹¹⁸ Developments at the Gwadar free trade zone look more promising *on paper* than those of the SEZs. Recently, the chair of the China Overseas Port Holding Company, Zhang Baozhong, has claimed that “43

Chinese companies are going to invest while 200 more firms have been registered for the purpose.”¹¹⁹ However, it remains to be seen how much investment actually materializes from these expressions of interest.

China also has a strategic goal at stake in the development of the Gwadar Port, and most of the funding for projects in Gwadar “comes in the form of grants and interest free loans.”¹²⁰ However, it is striking that, in contrast to the SEZs, several of the Gwadar projects publicized in the early harvest phase of the CPEC were designed to appease local communities in the province and in the surrounding area.¹²¹ These included the Pak China Friendship Hospital, the Pak-China Technical and Vocational Institute, the Gwadar Livelihood Project, and the establishment of Gwadar University. Other projects such as a desalination initiative also benefit the immediate area.

The Gwadar Livelihood Project was of particular importance as it involved the Chinese holding company overseeing the port taking “effective measures for social sector development” and the “[u]pgradation and development of fishing, boat making and maintenance services to protect and promote livelihoods of [the] local population.”¹²² Scholar Frederic Grare, writing in 2018, suggested that these measures were designed to appease the local population and decrease the security challenges of the project. Grare wrote, “Interestingly, the Chinese authorities seemed to understand the problem better than their Pakistani counterparts: they built a school, sent doctors and promised some \$500 million for the construction of a hospital, a college, and various infrastructure projects to supply the city with drinking water.”¹²³

Yet, despite the commitment of the PTI government to socioeconomic development, many of these projects to win over local residents were removed from the 2018–2019 PSDP. In November 2019, both the Gwadar Livelihood Project and the Development of Gwadar University were removed from the Gwadar project pages of the CPEC website.¹²⁴ Even before the removal of the Livelihood Project from the CPEC website, local fishermen had expressed their concerns that their livelihoods were being adversely affected by the CPEC and that the Pakistani government had not kept its development promises to them.¹²⁵ Despite a promise from Pakistani officials that “CPEC projects and education schemes would not be dropped . . . at least four projects of [the] CPEC and one dozen schemes of Gwadar [were] dropped from the PSDP.”¹²⁶ Although conditions of austerity partly explain the decision to drop these projects, Khan’s concern about the CPEC is also part of the explanation. Despite being the Pakistani province with the largest territorial area, its small population (6 percent of the country’s total) has meant that successive Pakistani governments have failed to invest in Balochistan since it holds fewer seats in the National Assembly than any other province.¹²⁷

The fishing sector represents an important part of Gwadar’s development because of its commercial potential. The port’s fishing community has been expressing concerns about being displaced from their traditional fishing grounds due to the construction of CPEC projects such as the Eastbay

Expressway for several years.¹²⁸ More recently however, their entire livelihood has come under threat as a result of developments related to the CPEC.

In October 2020, Pakistani fishermen in Sindh and Balochistan protested against the arrival of Chinese trawlers that would fish in the exclusive economic zones of Sindh and Punjab. According to one news account, the “president of the Gwadar Fishermen Alliance [argued that] the Chinese ships will badly hurt local fishermen . . . Fishing in the sea is a source of livelihood for over 2.5 million people . . . and the new trawlers will deprive us of our livelihood.”¹²⁹ The locals are extremely worried about fishing stocks being depleted. As one reporter noted, an adviser on marine fisheries for World Wildlife Fund-Pakistan named Moazzam Khan said “Chinese fishermen are eager to fish in Pakistan[i] waters as they can sell the catch back home duty-free.”¹³⁰

Responding to this latest wave of concerns over the future of fishing in Gwadar, the Chinese consul general countered that China was providing assistance to local fishermen in the form of “engines, solar panels and fishing nets . . . to help increase their fishing capacity.”¹³¹ The Chinese government also has encouraged them to “seek [the Pakistani] federal and provincial government’s help in developing more fishing cultures to boost their future fishing capacity.”¹³² The latter is seen as a precondition to establish processing factories and storage plants that would enable Pakistani seafood to be exported. The Gwadar free trade zone does include a “fishery processing centre.”¹³³ However, while a 2013 World Bank report noted that there was an urgent need for processing facilities closer to the sea, these latest developments suggest that the local Pakistani fishing community will not be the ones to benefit.¹³⁴

Overall, it is clear that China is keen to be seen as responsive to the local population’s concerns in Gwadar, perhaps more so than the current PTI government. China has a clear interest in minimizing the security challenges to the project. In this respect, Chinese actors face an uphill struggle, not least because of the province’s long history of economic deprivation and marginalization. In addition, whether local communities are able to benefit from a more industrialized economy is open to question, given the low level of skills development in the province.¹³⁵

Recently, progress does appear to have been made on completing the Technical and Vocational Institute, a project that “aims to produce skilled manpower in different areas to [allow the local population to] take maximum advantage of CPEC linked opportunities.”¹³⁶ There will be concerns from locals that Pakistanis from other provinces will take advantage of these opportunities, and, as with the development of the free trade zone and the fishing processing center, benefits will not necessarily accrue to the local areas around Gwadar. In addition, the tension between securing the buy-in of local communities and the need to increase security is likely to remain, as was revealed in December 2020 by attempts, allegedly “at the behest of” Chinese actors according to some media accounts, to physically fence off parts of Gwadar.¹³⁷

Key Takeaways

Although there is a huge power imbalance between China and Pakistan, the way that the CPEC has evolved over the last six years demonstrates that Pakistan has been able to shape its development. Although China's goal to relocate its sunset industries required fixing the frequent power outages that plagued Pakistan in the early 2010s, it is notable that the early focus on coal power was in line with Sharif's and the PML-N's preferences for energy projects to aid their reelection campaign. Similarly, although the Chinese wanted quick wins, the decision to focus on developing the eastern route of the CPEC also stemmed from Pakistan's partisan political considerations.

The use of the corridor for political gains has continued under the PTI government, with its decision to focus on developing a particular SEZ that was less feasible than other candidates, again for partisan political reasons. The creation of the SEZs is a laudable aim, but their development remains mired in bureaucratic complexity and, amid the coronavirus pandemic and other challenges, progress has been extremely slow.

The CPEC has been sold to the Pakistani people as a way to ensure local development, job creation, and the inclusion of all provinces. The reality is that the government has centralized power, and there is little evidence to date of new skilled jobs being created. Although there is a lot of talk about local employment and training opportunities in areas such as Balochistan (Pakistan's poorest province), in reality, the development of the area has resulted in the further alienation of local people including (but not confined to) the local fishing community.

The most visible manifestation of centralized decisionmaking was the October 2019 establishment of the CPEC Authority by presidential ordinance to “ensure timely completion of the CPEC projects . . . [and] help ensure coordination among the departments concerned.”¹³⁸ A senior PPP politician is worried that the authority, led by a retired military general, will be “insulated” from the provinces and that it “will be more an affair between the Authority and the [prime minister].”¹³⁹

The CPEC Authority Act, passed by the National Assembly in February 2021, but which is still waiting to be passed in the upper house, provides that the CPEC Authority “shall report to the Prime Minister” and “shall be responsible for planning, facilitating, coordinating, enforcing, monitoring, and evaluation the smooth implementation of all activities related to [the CPEC].”¹⁴⁰ The bill also provides that the CPEC Authority will be able to organize meetings of the JCC and the joint working groups and is responsible for “inter-provincial and inter-ministerial coordination” on the CPEC. From the bill's wording, the JCC will still be co-chaired by the minister for planning on the Pakistani side, but the CPEC Authority will “interface [directly] with [the] National Development and Reform Commission . . . of China after due deliberations and consultations with relevant ministries. . . .”¹⁴¹

This centralization has pleased China.¹⁴² But Beijing has still sought to increase “effective oversight and monitoring” by proposing a new Pakistan-China joint parliamentary committee on the CPEC. This body will not replace the JCC but reportedly will be responsible for “day-to-day monitoring of [the] CPEC.”¹⁴³

Lessons Learned

An examination of the key local forces that have shaped Pakistani agency and decisionmaking on the CPEC offers important lessons for how the CPEC’s projects have unfolded to date and for interactions between Chinese actors and other BRI recipient countries.

Lessons for Pakistan

Increase transparency. BRI projects are known for their lack of transparency, and the CPEC is no exception. As the International Crisis Group noted back in 2018, “Analysis of the economic promise and impact of the CPEC . . . is hampered by the opacity of its formulation and rollout.”¹⁴⁴ This remains true in 2021. Legitimate academic inquiries on the progress of CPEC projects are often met by political, military, and bureaucratic actors with charges of promoting conspiracy theories.¹⁴⁵ The CPEC has the potential to increase economic development and improve infrastructure in Pakistan, but the secrecy surrounding many of the projects means that it is very difficult to make informed recommendations about them.

Widen consultations. To maximize the gains from these investments, it is important for national and provincial priorities to be informed by a wider consultative process. Too often, decisions on the CPEC have been made in secret, only to be contested by those left out of the process. The lack of wider consultations also results in decisions that do not benefit the country as a whole. For example, so far there have been no special incentives for specific industries that would benefit Pakistan, nor have there been incentives tied to local employment quotas or training provisions.

Get local buy-in. There is a need to rally support for BRI projects from a range of stakeholders, including governments (federal and provincial), businesses, and local communities. In the case of the CPEC, this is especially important in Balochistan, where long-standing grievances exist, but winning over locals is also important in the other provinces of Pakistan.¹⁴⁶ Although such consultations may slow down project implementation, doing so is likely to result in decisions that are more readily accepted by local communities. The head of the CPEC authority very publicly consulted chief ministers when he was appointed, but such consultations need to be ongoing and must go beyond such public gestures.

Lessons for All BRI Recipients

Identify a clear set of national and provincial priorities. It is undeniable that countries can gain from BRI investments. Pakistan, despite its weak international position and weak economy has had agency in its dealings with China, even though Pakistan is *not* a high foreign policy priority for Beijing.¹⁴⁷ Pakistan's experience illustrates the importance of identifying a clear set of priorities when countries deal with Beijing and for them to use the leverage they have. The experience of Pakistan demonstrates that, despite a slow start, it is possible to secure domestic political benefits from BRI investments (although that should not be taken to minimize the dangers of a potential debt trap.) Pakistan's experience also illustrates that there are areas where it is more difficult for BRI recipients to negotiate, such as on the terms agreed with the independent power producers, given Pakistan's weak FDI position.

Consider projects' financial and social sustainability. Recipient countries need to build in mechanisms to ensure that technology transfers and training are integral to the development of BRI projects. Otherwise, these important issues may end up on the backburner. Many CPEC projects include the construction of training facilities in Pakistan, but the timelines for the construction of these facilities have all too often fallen behind schedule.

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Acknowledgments

The authors would like to thank Evan Feigenbaum, Nonna Gorilovskaya, Liming Lin, and Ryan DeVries for their feedback on earlier drafts and for their editorial assistance. They would especially like to thank the many people in Pakistan who, over the course of the past six years, shared their time to talk about the dynamics discussed in the paper. One of the authors (Katharine Adeney) would also like to thank Maryam Gilani, Muhammad Shakeel Ahmad, and Qaiser Nawab for facilitating access for interviews in Lahore and Islamabad; Lahore University of Management Sciences for hosting her; and an international collaboration grant from the British Council and HEC Pakistan for funding her research visit in February–March 2020.

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